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January 2, 2014

The Board of Directors
Caroline Islands Air, Inc.

Dear Members of the Board of Directors:

We have performed an audit of the financial statements of Caroline Islands Air, Inc. (CIA or the Company), a component unit of the FSM National Government, as of and for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America and ("generally accepted auditing standards") have issued our report thereon dated January 2, 2014.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Company is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS AND GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

Our responsibility under generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described in our engagement letter dated September 11, 2013. As described in that letter, the objective of a financial statement audit conducted in accordance with the aforementioned standards is:

- To express an opinion on the fairness of the presentation in the Company's basic financial statements and to disclaim an opinion on the required supplementary information for the year ended September 30, 2013 in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and

- To report on the Company's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended September 30, 2013 based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

Our responsibilities under generally accepted auditing standards include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Board of Directors are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.

We considered the Company's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared with the oversight of management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. Significant accounting estimates reflected in the Company's 2013 financial statements include management's estimate of the allowance for doubtful accounts, which is determined based upon past collection experience and aging of the accounts and management's estimate of depreciation expense, which is based on estimated useful lives of the respective capital assets. During the year ended September 30, 2013, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. We have attached to this letter, as Appendices A and B to Attachment II, a summary of uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

MATERIAL CORRECTED MISSTATEMENTS

Material misstatements were brought to the attention of management as a result of our audit procedures and were corrected by management during the current period. We have attached to this letter, as Attachment I, a summary of misstatements corrected by management.

SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are set forth in Note 2 to the Company's 2013 financial statements. During the year ended September 30, 2013, there were no significant changes in previously adopted accounting policies or their application, except for the following pronouncements adopted by the Company:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. The implementation of this statement did not have a material effect on the financial statements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Entity*, and No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively. The implementation of this statement did not have a material effect on the financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. The implementation of this statement did not have a material effect on the financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of CIA.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of CIA.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of CIA.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of CIA.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Company's 2013 financial statements.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during 2013.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions were held, or were the subject of correspondence with management regarding the application of accounting principles or auditing standards in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions or correspondence were not held in connection with our retention as auditors.

OTHER SIGNIFICANT ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were the subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant issues requiring communication to the Board of Directors.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Company's management and staff and had unrestricted access to the Company's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Company's management about the representations embodied in the financial statements. Additionally, we have requested that management provide to us the written representations the Company is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment II, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated January 2, 2014, wherein no matters involving the Company's internal control over financial reporting that were considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants, and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters were reported.

We have communicated to management, in Appendix I, deficiencies in internal control over financial reporting that we identified during our audit.

* * * * * *

This report is intended solely for the information and use of management, the Board of Directors, others within the Company and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Deloitte + Touche LLP

SECTION I – DEFICIENCIES

We identified, and have included below, a deficiency involving CIA's internal control over financial reporting as of September 30, 2013 that we wish to bring to your attention:

1. Social Security Tax

Comment 1: The employee share of Social Security Tax ($1,330) was not deducted from an employee's salary for 20 pay periods. It appears that there was a failure of a system modification of deduction rates when the Company modified information on the accounting system.

Comment 2: The employee share of Social Security Tax increased from 7% to 7.5% per quarter, effective January 1, 2013; however, such changes were not reflected in the accounting system and the wrong percentages (7%) and taxable wage ($6,000) were applied to an employee for three pay periods. The aggregate difference was $3.

Recommendation: The Company should establish procedures to achieve approximate modification and review of information generated from the accounting system.

2. Loan from Employee

Comment: CIA borrowed $10,000 from an employee with $2,000 of interest to find emergency fund acquisition. The effective interest rate appears to approximate 48%.

Recommendation: The Company should consider whether an alternate standby loan should be obtained.

3. Cash Collection in Branch Office

Comment: CIA discovered that the cash collections from the Chuuk Office were $545 less than the amount which should have been collected. The deposit of cash was delayed, and therefore, such was not detected timely.

Recommendation: The Company should review cash collections daily. There should be a dual control in reviewing cash collections in branch offices.

SECTION II - DEFINITION

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

APPENDIX I

Summary of Corrected Misstatements (September 30, 2013)

Description of Misstatement	Assets		Liabilities		Equity		Income		TOTAL
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
AJE 1									
Dr 1001 Cash in Bank:BFSM - Gen. Checking	1,388.72								1,388.72
Dr 1101 Accounts Receivable	3,793.00								3,793.00
Dr 1102Allowance for Doubtful Receivab	22,272.00								22,272.00
Dr 1103 Inventory	33,820.28								33,820.28
Dr 1206 Company Vehicles:Acquisitional Cost	5,500.00								5,500.00
Dr 2106 Payroll Liabilities:Health Insurance Payable			114.40						114.40
Cr 1208 Computer Equipment:Accum. Depreciation		240.00							(240.00)
Cr 1207 Company Vehicles:Accum. Deprectiation		1,760.00							(1,760.00)
Cr 2101 Accounts Payable				4,473.36					(4,473.36)
Cr 2105 Payroll Liabilities				9,146.85					(9,146.85)
Cr 2108 Payroll Liabilities:FSM 6% Employee Inc. Tax				86.82					(86.82)
Cr 2109 Payroll Liabilities:FSM 7.5% SS Employee Tax				88.64					(88.64)
Cr 2110 Payroll Liabilities:FSM 7.5% SS Company Contrib.				86.24					(86.24)
Cr 3001 Retained Earnings						51,006.49			(51,006.49)
AJE 2									
Dr 1001 Cash	434.48								434.48
Cr 2101 Accounts Payable				434.48					(434.48)
AJE 3									
Not used									
AJE 4									
Dr 1001 Cash	670.00								670.00
Cr 4002 C.I.A. REVENUE:Passenger Airfare								670.00	(670.00)
AJE 5									
Dr 5029 Supplies - office expense							650.00		650.00
Cr 1002 Petty Cash:P/C - Sapwuafik		50.00							(50.00)
Cr 1003 Petty Cash:P/C - ON - Chuuk		50.00							(50.00)
Cr 1004 Petty Cash:P/C OH - Chuuk		50.00							(50.00)
Cr 1005 Petty Cash:P/C TA - Chuuk		100.00							(100.00)
Cr 1006 Petty Cash:P/C WO-Chuuk		100.00							(100.00)
Cr 1007 Petty Cash:P/C Mwokil		100.00							(100.00)
Cr 1008 Petty Cash:P/C Pingelap		100.00							(100.00)
Cr 1009 Petty Cash:P/C Pohnpei		100.00							(100.00)
AJE 6									
Dr 5004 Expense - avgas							28,079.44		28,079.44
Cr 1103 Inventory		28,079.44							(28,079.44)
AJE 7									
Dr 5037 Depreciation Expense							880.00		880.00
Cr 1207 Accumulated Depreciation		880.00							(880.00)
AJE 8									
Not used									
AJE 9									
Dr 1104 Prepaid expense	49,154.00								49,154.00
Cr 5014 Communication:Frieght/Postage								14,395.00	(14,395.00)
Cr 5004 OPERATIONS EXP.:Mobil - Avgas								34,759.00	(34,759.00)

Dr 1206 PP&E Vehicle	4,275.90				4,275.90
Dr 1203 PP&E Equipment (generator)	3,000.00				3,000.00
Cr 5004 OPERATIONS EXP. Mobil - Avgas				3,000.00	(3,000.00)
Cr 6040 Repairs - Equipment				3,500.00	(3,500.00)
Cr 5001 Auto exp				775.90	(775.90)
Dr 1104 Prepaid expense	9,566.00				9,566.00
Cr 5020 Airplane Insurance Expense				9,566.00	(9,566.00)
Dr 1101 Accounts receivable	1,224.80				1,224.80
Dr 5106 SS tax expense employer share			1,224.80		1,224.80
Cr 2109 SS tax payable employee share		1,224.80			(1,224.80)
Cr 2110 SS tax payable employer share		1,224.80			(1,224.80)
Not used					
Dr 5004 Operations Exp/Mobil - Avgas			19,500.00		19,500.00
Cr 5014 Postage and freight				19,500.00	(19,500.00)
Not used					
Dr 5036 Interest expense			2,000.00		2,000.00
Dr 4024 Other income			10,000.00		10,000.00
Cr 5014 Freight / postage $12,000				12,000.00	(12,000.00)

The above corrected misstatements do not represent fraud or illegal acts.

Mary Trainoff
CFO-CAROLINE ISLANDS AIR

ATTACHMENT II

Caroline Islands Air Inc

"Wings of the FSM"

P.O. Box 2238, Pohnpei, FM 96941

Tel: (691)-320-8406
Fax: (691)-320-8530
e-mail: cia@mail.fm

January 2, 2014

Deloitte & Touche LLP
361 SOUTH MARINE CORPS DRIVE
TAMUNING GU, 96913

We are providing this letter in connection with your audits of the statements of net position of the Caroline Islands Air, Inc. (the Company) as of September 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, which collectively comprise the Company's basic financial statements for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America (GAAP).

We confirm that we are responsible for the following:

a. The fair presentation in the financial statements of financial position, results of operations, and cash flows in conformity with GAAP.

b. The fair presentation of the required supplementary information, including Management's Discussion and Analysis, that is presented for the purpose of additional analysis of the financial statements.

c. The design and implementation of programs and controls to prevent and detect fraud, including fraud related to federal awards.

d. Establishing and maintaining effective internal control over financial reporting.

e. The review and approval of the financial statements and related notes and acknowledge your role in the preparation of this information. Specifically, we acknowledge that your role in the preparation of the financial statements was a matter of convenience rather than one of necessity. We have reviewed the financial statement preparation assistance provided by you and acknowledge that the financial statements are prepared in accordance with GAAP. Our review was based on the use of the financial statement disclosure checklist for a business-type entity obtained from the Government Finance Officers Association.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audits.

1. The financial statements referred to above are fairly presented in conformity with GAAP. In addition:

    a. Net asset components (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.

    b. Deposits are properly classified in the category of custodial credit risk.

    c. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

    d. Required supplementary information is measured and presented within prescribed guidelines.

2. The Company has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.

3. The Company has provided you:

    a. Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared. The only minutes that we have provided you are for the date of February 7, 2012, April 16, 2012, July 13, 2012, August 30, 2012, November 20, 2012, April 15, 2013, July 26, 2013 and September 25, 2013, and there are no meetings other than those that have occurred from September 25, 2013 through the date of this letter.

    b. Financial records and related data for all financial transactions of the Company and for all funds administered by the Company. The records, books, and accounts, as provided to you, record the financial and fiscal operations of all funds administered by the Company and provide the audit trail to be used in a review of accountability. Information presented in financial reports is supported by the books and records from which the financial statements have been prepared.

    c. Contracts and grant agreements (including amendments, if any) and any other correspondence that has taken place with federal agencies.

4. There has been no:

    a. Action taken by Company management that contravenes the provisions of federal laws and FSM laws and regulations, or of contracts and grants applicable to the Company.

    b. Communication from other regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices or other matters that could have a material effect on the financial statements.

5. We believe the effects of any uncorrected financial statement misstatements aggregated by you during the current audit engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix A.

6. We believe the effects of the uncorrected financial statement misstatements detected in the current year that relate to the prior year presented, when combined with those misstatements aggregated by you during the prior-year audit engagement and pertaining to the prior year presented, are immaterial, both individually and in the aggregate, to the financial statements for the year ended September 30, 2012 taken as a whole. A summary of such uncorrected misstatements has been attached as Appendix B.

7. The Company has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Company and do not believe that the financial statements are materially misstated as a result of fraud.

8. We have no knowledge of any fraud or suspected fraud affecting the Company involving:

   a. Management.

   b. Employees who have significant roles in internal control over financial reporting.

   c. Others if the fraud could have a material effect on the financial statements.

9. We have no knowledge of any allegations of fraud or suspected fraud affecting the Company received in communications from employees, former employees, regulators, or others.

10. There are no unasserted claims or assessments that legal counsel has advised us are probable of assertion and must be disclosed in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section C50, *Claims and Judgments*.

11. Significant assumptions used by us in making accounting estimates are reasonable.

12. Management has identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts.

Except where otherwise stated below, matters less than $3,200 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to, or disclosure in, the basic financial statements.

13. Except as listed in Appendices A and B, there are no transactions that have not been properly recorded in the accounting records underlying the financial statements.

14. The Company has no plans or intentions that may affect the carrying value or classification of assets and liabilities.

15. The following, to the extent applicable, have been appropriately identified, properly recorded, and disclosed in the financial statements:

    a. Related-party transactions and associated amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees (written or oral).

    b. Guarantees, whether written or oral, under which the Company is contingently liable.

16. In preparing the financial statements in conformity with GAAP, management uses estimates. All estimates have been disclosed in the financial statements for which known information available prior to the issuance of the financial statements indicates that both of the following criteria are met:

    a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

    b. The effect of the change would be material to the financial statements.

17. Risks associated with concentrations, based on information known to management, that meet all of the following criteria have been disclosed in the financial statements:

    a. The concentration exists at the date of the financial statements.

    b. The concentration makes the enterprise vulnerable to the risk of a near-term severe impact.

    c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.

18. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Codification Section C50, *Claims and Judgments*.

19. The Company has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

20. The Company has complied with all aspects of contractual agreements that may have an effect on the financial statements in the event of noncompliance.

21. No department or agency of the Company has reported a material instance of noncompliance to us.

22. The Company has identified all derivative instruments as defined by GASB Codification Section D40, *Derivative Instruments*, and appropriately recorded and disclosed such derivatives in accordance with GASB Codification Section D40.

23. No events have occurred after September 30, 2013 but before January 2, 2014, the date the financial statements were available to be issued that require consideration as adjustments to, or disclosures in, the financial statements.

24. Management has disclosed whether, subsequent to September 30, 2013, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses, have occurred.

25. The Company is responsible for determining and maintaining the adequacy of the allowance for uncollectible receivables, as well as estimates used to determine such amounts.

26. During fiscal year 2013, the Company implemented the following pronouncements, implementation of which did not have a material effect on the financial statements:

    - GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which addressed how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into.

    - GASB Statement No. 61, *The Financial Reporting Company: Omnibus*, which improved financial reporting for governmental entities by amending the requirements of Statements No. 14, *The Financial Reporting Company, and No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to better meet user needs and address reporting entity issues that have come to light since those Statements were issued in 1991 and 1999, respectively.

    - GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which enhanced the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. GASB Statement No. 62 superseded GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which established guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. These Statements amend the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. With the implementation of GASB Statement No. 63 and Statement No. 65, the Statement of Net Assets was renamed the Statement of Net Position. In addition, the Statement of Net Position includes two new classifications separate from assets and liabilities. Amounts reported as deferred outflows of resources are reported in a separate section following assets. Likewise, amounts reported as deferred inflows of resources are reported in a separate section following liabilities.

27. In April 2012, GASB issued Statement No. 66, *Technical Corrections - 2012*, which enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The provisions of this statement are effective for periods beginning after December 15, 2012. Management has not yet determined the effect of implementation of this statement on the financial statements of the Company.

28. In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans,* which revises existing guidance for the financial reports of most pension plans, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. Management has not yet determined the effect of implementation of these statements on the financial statements of the Company.

29. In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which improves accounting and financial reporting for state and local governments' combinations and disposals of government operations. Government combinations include mergers, acquisitions, and transfers of operations. A disposal of government operations can occur through a transfer to another government or a sale. The provisions in Statement 69 are effective for fiscal years beginning after December 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Company.

30. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The provisions in Statement 69 are effective for fiscal years beginning after June 15, 2013. Management has not yet determined the effect of implementation of these statements on the financial statements of the Company.

31. Receivables recorded in the financial statements represent valid claims against debtors for sales or other charges arising on or before September 30, 2013 and have been appropriately reduced to their estimated net realizable value.

32. Quantitative and qualitative information regarding the allowance for doubtful accounts has been properly disclosed in the financial statements.

33. Provision has been made, where applicable, to reduce excess or obsolete inventories to their estimated net realizable value. All inventories are the property of the Company and do not include any items consigned to it or any items billed to customers.

34. No evidence of fraud, possible irregularities, or dishonesty in fiscal operations of federal programs administered by the Company has been discovered.

35. The Company is exposed to various risks of loss related to torts; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Company has elected to purchase commercial insurance from independent third parties for the risks of loss to which it is exposed. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

36. We have disclosed to you all conditions that we are undertaking to resolve the current uncertainty relative to our ability to continue as a going concern.

37. Regarding required supplementary information:

    a. We confirm that we are responsible for the required supplementary information.

    b. The required supplementary information is measured and presented in accordance with GASB Codification of Government Accounting and Financial Reporting Standards Section 2200, *Comprehensive Annual Financial Report*.

    c. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period.

38. Regarding supplementary information:

    a. We are responsible for the fair presentation of the supplementary information in accordance with GAAP.

    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP.

    c. The methods of measurement and presentation of the supplementary information has not changed from those used in the prior period.

Very truly yours,

Signed: Alex Tretnoff
Chief Executive Officer

Signed: Mary Tretnoff
Chief Financial Officer

APPENDIX A

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

Year Ended September 30, 2013

CURRENT YEAR UNCORRECTED MISSTATEMENTS				
	Assets	Liabilities	Net Assets Beg of Year	Revenues & Expenses
Entry Description	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**
To correct understatement of accrued payroll liability		(4,091)		4,091
To correct understatement of other accrued payroll liabilities		(2,247)		2,247
Total Misstatements		(6,338)		6,338

APPENDIX B

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

Year Ended September 30, 2012

PRIOR YEAR UNCORRECTED MISSTATEMENTS				
	Assets	Liabilities	Net Assets Beg of Year	Revenues & Expenses
Entry Description	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**	**Dr (Cr)**
** To correct understatement of accrued payroll liability		(3,625)		3,625
Total Misstatements		(3,625)		3,625